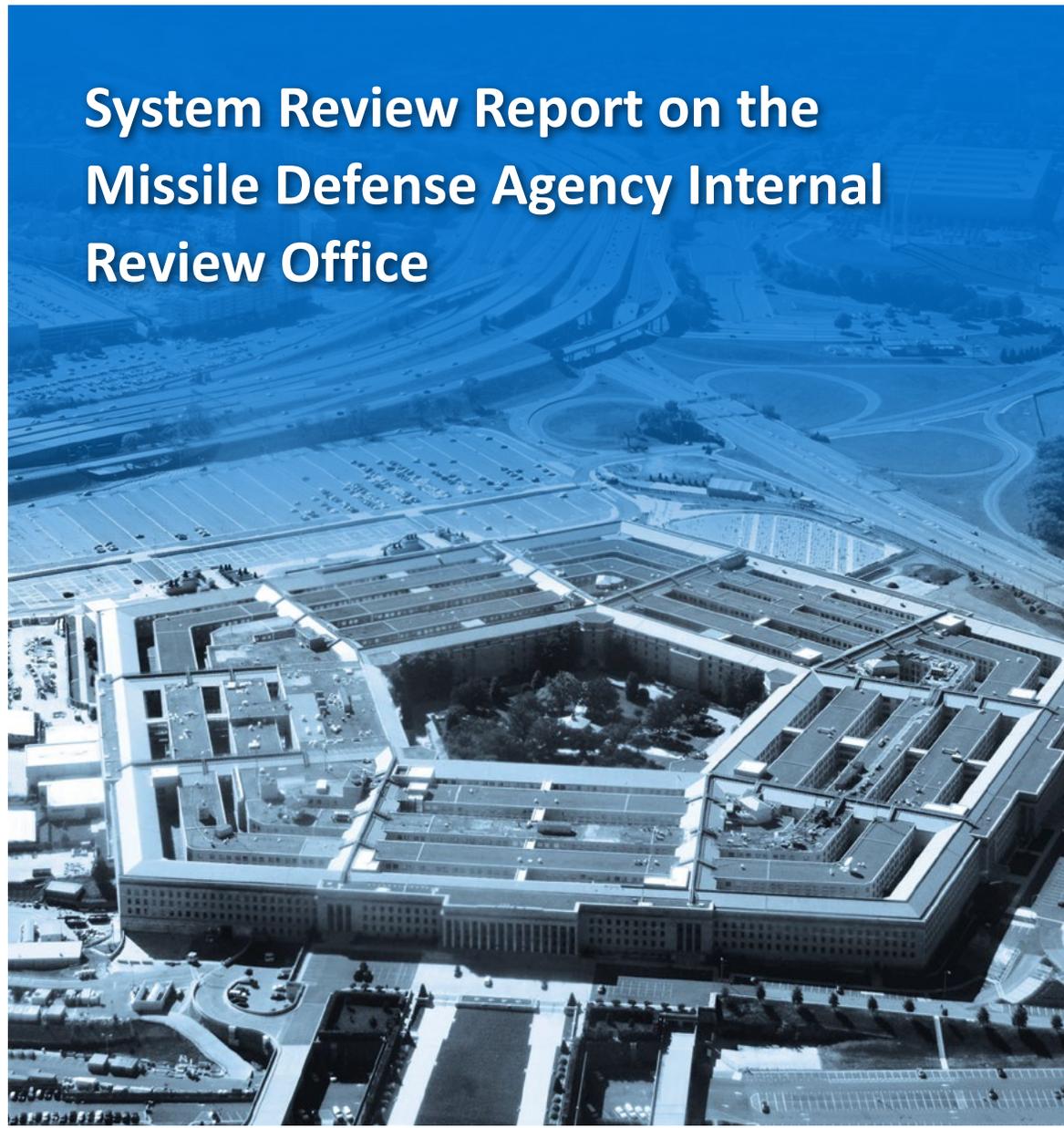




# INSPECTOR GENERAL

*U.S. Department of Defense*

MAY 10, 2018



## System Review Report on the Missile Defense Agency Internal Review Office

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

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**INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
4800 MARK CENTER DRIVE  
ALEXANDRIA, VIRGINIA 22350-1500**

May 10, 2018

MEMORANDUM FOR DIRECTOR, MISSILE DEFENSE AGENCY

SUBJECT: System Review Report on the Missile Defense Agency Internal Review Office  
(Report No. DODIG-2018-114)

Attached is the System Review Report on the Missile Defense Agency Internal Review Office. We conducted the review in accordance with the *Government Auditing Standards* and the Council of the Inspectors General on Integrity and Efficiency *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*.

Enclosure 1 of the report identifies the scope and methodology for this review. We considered management comments on a draft of this report when preparing the final report, which are contained in Enclosure 2. Comments from the Missile Defense Agency Director conformed to the requirements of DoD Instruction 7650.03; therefore, we do not require additional comments.

If you have any questions or would like to meet to discuss the report please contact Carolyn R. Hantz at (703) 604-8877 or e-mail at [Carolyn.Hantz@dodig.mil](mailto:Carolyn.Hantz@dodig.mil). We appreciate the cooperation and assistance received during the quality control review.

A handwritten signature in black ink, appearing to read "Randolph R. Stone".

Randolph R. Stone  
Deputy Inspector General  
Policy and Oversight

Enclosures:  
As stated





**INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
4800 MARK CENTER DRIVE  
ALEXANDRIA, VIRGINIA 22350-1500**

May 10, 2018

MEMORANDUM FOR DIRECTOR, MISSILE DEFENSE AGENCY

SUBJECT: System Review Report on the Missile Defense Agency Internal Review Office  
(Report No. DODIG-2018-114)

We reviewed the system of quality control for the Missile Defense Agency (MDA) Internal Review (IR) Office in effect for September 30, 2017. A system of quality control encompasses MDA IR's organizational structure and policies adopted and procedures established to provide it with reasonable assurance of conforming to *Government Auditing Standards (GAS)*. The elements of quality control are described in GAS. The MDA IR office is responsible for establishing and maintaining a system of quality control that is designed to provide it with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the MDA IR's compliance with standards and requirements based on our review.

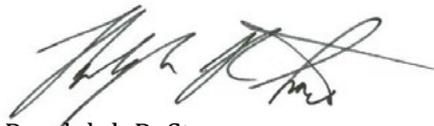
We conducted our review in accordance with GAS and the Council of the Inspectors General on Integrity and Efficiency *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*. During our review, we interviewed MDA IR personnel and obtained an understanding of the nature of the MDA IR's organization and the design of its system of quality control sufficient to assess the risks implicit in its organization. We selected audits and administrative files to test for conformity with professional standards and compliance with the MDA IR's system of quality control. Before concluding the peer review, we discussed the results of the peer review with MDA IR management. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for the audit organization. In addition, we tested compliance with the MDA IR organization's quality control policies and procedures to the extent that we considered appropriate. These tests covered the application of the MDA IR organization's policies and procedures on the audits we selected to review. Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

Inherent limitations exist in the effectiveness of any system of quality control. Therefore, noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies and procedures may deteriorate.

In our opinion, the system of quality control for MDA IR in effect for the year ending September 30, 2017, has been suitably designed and complied with to provide MDA IR with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material aspects. Audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. MDA IR has received a rating of *pass*. Enclosure 2 includes the full text of management's comments.

As is customary, we are issuing a letter of comment dated May 10, 2018, that sets forth findings that were not considered to be of sufficient significance to affect our opinion expressed in this report. If you have any questions or would like to meet to discuss the report, please contact Carolyn R. Hantz at (703) 604-8877 or at [Carolyn.Hantz@dodig.mil](mailto:Carolyn.Hantz@dodig.mil). We appreciate the cooperation and assistance received during the quality control review.

A handwritten signature in black ink, appearing to read 'Randolph R. Stone', written in a cursive style.

Randolph R. Stone  
Deputy Inspector General  
Policy and Oversight

# Enclosure 1

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## Scope and Methodology

We tested compliance with the system of quality control to the extent we considered appropriate. These tests included a review of six projects that were either completed or terminated during our review period of October 1, 2015, through September 30, 2017. We also reviewed the MDA IR Fiscal Year 2017 Quality Assurance Review (Report Q-17-01). In addition, we tested compliance for continuing professional education hours. We visited the MDA IR audit offices at Fort Belvoir, Virginia, and Huntsville, Alabama. In addition, we interviewed MDA IR personnel to determine their understanding of and compliance with quality control policies and procedures that were published by the MDA IR office between March 2015 and November 2016. The MDA IR audit office did not perform any nonaudit services during the period of our review, so we did not review any nonaudit services.

The MDA IR audit office issued eight audit reports within the scope of our review. We selected three reports and reviewed their project files to assess compliance with the MDA IR audit organization's system of quality control for audits. Table 1 lists the reports reviewed.

*Table 1. Selected MDA IR Reports Reviewed*

Project Number and Title	Project Announcement Date	Issuance Date
A-15-07, "Audit of the Missile Defense Agency's Government Purchase Card Program"	June 19, 2015	September 19, 2016
A-16-04, "Audit of Out-Processing and Turn-in Process"	July 7, 2016	June 29, 2017
A-16-08, "Audit of Missile Defense Agency Confidentiality Agreements"	May 2, 2016	March 9, 2017

We also reviewed the audit documentation for the three projects terminated during the review period to determine whether the MDA IR audit staff documented the results of the work to the date of the termination and why the audit was terminated. The projects were terminated because performing them would represent an inefficient use of resources due to improvements to the processes being audited, as well as limitations in scope. In addition, we reviewed the method used to communicate the reason for terminating the audit to those charged with governance and appropriate officials of the audited entity. We determined that the audits were terminated in accordance with the MDA IR's policies and procedures. Table 2 lists the terminated projects we reviewed.

*Table 2. Terminated Projects Reviewed*

Project Number and Title	Date Project Was Announced	Date Project Was Terminated
A-16-12, "Audit of the Missile Defense Agency's Mass Transit Benefit Program"	September 23, 2016	February 6, 2017
A-17-02, "Audit of MDA Market Research and Commercial Item Determinations"	January 26, 2017	March 20, 2017
A-17-05, "Review of Contract Government Furnished Equipment"	June 8, 2017	September 29, 2017



**INSPECTOR GENERAL**  
**DEPARTMENT OF DEFENSE**  
4800 MARK CENTER DRIVE  
ALEXANDRIA, VIRGINIA 22350-1500

May 10, 2018

MEMORANDUM FOR DIRECTOR, MISSILE DEFENSE AGENCY

SUBJECT: Letter of Comment for the Missile Defense Agency Internal Review Office  
(Report No. DODIG-2018-114)

We reviewed the system of quality control for the Missile Defense Agency (MDA) Internal Review (IR) Office in effect for September 30, 2017, and issued our report on May 10, 2018, in which MDA IR received a rating of pass. The following findings were not considered to be of sufficient significance to affect the opinion expressed in the report.

## **Independence**

### ***Finding 1. Auditors Did Not Document All Required Independence Assessments***

MDA IR auditors did not document the independence of all personnel for two of the three audits we selected for testing. Government Auditing Standards (GAS) 3.02 states that in all matters relating to the audit work, the audit organization, and the individual auditor must be independent during the entire duration of the engagement, which ends with the issuance of a report. GAS 3.59 further states that documentation of independence considerations provides evidence of the auditor's judgments in forming conclusions regarding compliance with independence requirements.

MDA IR "Standard Operating Procedure Teammate and Workpaper Process" (IR-AU-TM-001), November 17, 2016, requires that personnel participating in the engagement, including the MDA IR Director and Deputy Director, complete a statement of independence. The statement of independence identifies threats to independence and the safeguards applied to prevent an impairment of the individual's independence. According to the standard operating procedures, the MDA IR standard statement of independence, form IR-AU-TM-001-C, should be documented in the corresponding project file for each engagement before fieldwork begins.

However, the project files for MDA IR Project Numbers A-16-04 and A-16-08 did not contain a statement of independence for the MDA IR Director. While the IR Director assumed her position after the fieldwork began for these projects, the project files were not updated to include her statement of independence. MDA IR auditors completed a reference review checklist before the reports were issued that stated all statements of independence had been included in the project files. However, the statements of independence for the MDA IR Director

were not included in the project files. Insufficient documentation of an auditor's compliance with the independence standard does not impair independence; however, appropriate documentation is required under the GAS quality control and assurance requirements.

## Recommendations, Management Comments, Our Response

### ***Recommendation 1***

**We recommend that the Director, Missile Defense Agency Internal Review, clarify guidance to ensure that auditors include all required independence statements in the project files to comply with MDA IR-AU-TM-001.**

#### *MDA Comments*

The MDA Director agreed with the recommendation, stating that although the MDA IR Director's independence statements were not included in the A-16-04 and A-16-08 project files, they were completed and available on MDA IR's shared drive. The Director further stated that these projects now include the independence statements and that on March 13, 2018, the MDA IR Director sent an e-mail directing IR staff to comply with this recommendation and include all required independence statements in the project files.

#### *Our Response*

Comments from the MDA Director addressed all specifics of the recommendation. We reviewed the MDA IR Director's e-mail that directed the IR staff to include all required independence statements in the project files. Therefore, the recommendation is closed, and no further comments are required.

## Competence

### ***Finding 2. Auditors Did Not Document the Competence of an Project Team Member***

MDA IR auditors did not document their determination of the competence and qualifications of an MDA employee assigned to perform one of the three audits we reviewed. GAS 3.69 states that all staff assigned to perform the audit must collectively possess adequate professional competence to address the audit objectives and perform the work in accordance with GAS. An internal procurement analyst on a rotational developmental assignment to MDA IR from June 8, 2015 to October 2, 2015, was assigned to work on Project No. A-15-07. To gain an understanding of audit processes, MDA IR assigned the procurement analyst to perform duties such as assisting with planning, survey, and fieldwork. In addition, the procurement analyst assisted with writing draft and final audit reports. MDA IR monitors the qualifications and

competence of their audit staff to perform their assigned projects. However, the MDA IR auditors did not document the competence and qualifications of the procurement analyst to perform the duties assigned in the project reviewed.

Before our review, MDA IR performed an internal quality assurance review, which included a review of the audit we selected for testing. The MDA Fiscal Year 2017 Quality Assurance Review Report Q-17-01 states that the MDA IR auditors did not document the use of the procurement analyst in the audit project files for Project No. A-15-07. The Quality Assurance Review Report further states that to mitigate training requirements and assure proper documentation and evidence gathering, the Team Lead worked closely with the procurement analyst and supervised her daily work. However, the Quality Assurance Review Report Q-17 01 does not include a recommendation to address the documentation of the competence and qualifications of project team members.

## **Management Comments on the Finding and Our Response**

### *MDA Comments*

The MDA Director requested that a sentence discussing an internal procurement analyst assigned to MDA IR to perform a rotational developmental assignment be revised to reflect that the procurement analyst was not detailed to MDA IR specifically to work on Project No. A-15-07.

The MDA Director also requested that we revise the finding to recognize that the MDA IR Quality Assurance Review Report Q-17-01 included a recommendation to reiterate to the staff the importance of following generally accepted government auditing standards and MDA IR policy when conducting audits.

### *Our Response*

We revised the sentence to reflect that the procurement analyst was not detailed to MDA IR specifically to work on Project No. A-15-07. However, we do not agree that this finding should be updated based on the recommendations contained in the MDA IR Quality Assurance Review Report Q-17-01, dated October 30, 2017. The MDA IR quality assurance report included recommendations to address timely supervisory reviews, as discussed in Finding 3 of this letter of comment. In addition, the MDA IR quality assurance report included recommendations on completing quality control checklists and assessing audit risk. However, the MDA IR quality assurance report did not include a specific recommendation for auditors to document the competence and qualifications of all project team members assigned to audits. There was a recommendation included in the MDA IR quality assurance report that MDA IR audit staff include documentation in the Teammate files of extenuating circumstances that affect an audit and distribution of the final reports to the auditee. We believe a recommendation to reiterate to staff the importance of following standards, including a

recommendation that extenuating circumstances of an audit be documented in the project file, was not specific enough to address documenting the competence and qualifications of project team members as required by generally accepted government auditing standards.

## Recommendations, Management Comments, Our Response

### ***Recommendation 2***

**We recommend that the Director, Missile Defense Agency Internal Review, require auditors to document the competence and qualifications of all project team members assigned to audits.**

#### *MDA Comments*

The MDA Director agreed with the recommendation, stating that on March 13, 2018, the MDA IR Director sent an e-mail directing MDA IR staff to comply with this recommendation and document the competence and qualifications of all team members in the project files.

#### *Our Response*

Comments from the Director addressed all specifics of the recommendation. We reviewed the MDA IR Director's e-mail that required the MDA IR staff to document in the project file the competence and qualifications of all project team members assigned to audits. Therefore, the recommendation is closed, and no further comments are required.

## Supervision

### ***Finding 3. Auditors Did Not Perform Timely Supervisory Reviews***

MDA IR auditors did not perform timely supervisory reviews in one of the three audits we selected for testing. GAS 6.83c states that before the audit report is issued, auditors should document supervisory review of the evidence that supports the findings, conclusions, and recommendations contained in the audit report. The MDA IR Quality Assurance Program Standard Operating Procedures IR-AU-QA-001 requires that the appropriate Team Lead, Supervisory Auditor, or Deputy electronically sign working papers as reviewed in the project files. In addition, the Standard Operating Procedures state that working papers should be reviewed as soon as possible, but no later than 45 days after preparation. In MDA IR Project No. A-15-07, we found that 5 of the 13 audit project program step working papers were reviewed more than 6 months after the working papers were prepared.<sup>1</sup> Although the Standard Operating Procedures allow for review delays based on extenuating circumstances, MDA IR did not document this in the working papers.

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<sup>1</sup> A project program step is a set of audit procedures or test steps.

## Corrective Action Taken

Before our review, MDA IR performed an internal quality assurance review, which included a review of the project files for Project A-15-07. The MDA FY 2017 Quality Assurance Review Report identified the lack of timely supervisory reviews for these five project program steps working papers in this audit. The Quality Assurance Review Report includes a recommendation that the MDA IR Director reiterate to the auditors the importance of following GAS and MDA IR audit policy when conducting audits. We reviewed the Quality Assurance Review Report and determined that the MDA recommendation was adequate. On November 9, 2017, the MDA IR Director sent a memorandum to the MDA IR auditors, indicating her concurrence with the report recommendations and the importance of following GAS and MDA IR audit policy.

## Report Contents

### ***Finding 4. Auditors Did Not Include an Evaluation of Management Comments for All Recommendations***

MDA IR auditors did not include an evaluation of management comments for all recommendations in one of the three audit reports reviewed. GAS 7.32 states that auditors should obtain and report the views of responsible officials of the audited entity concerning the findings, conclusions, and recommendations included in the audit report, as well as any planned corrective actions. GAS 7.35 further states that auditors should also include in the report an evaluation of the comments, as appropriate.

During our review, we found that the report for MDA IR Project No. A-15-07 included a summary of the management comments section that did not address one of the three recommendations. MDA IR auditors addressed Recommendations 1 and 3 in the summary of management comments. However, the auditors did not address the management comments for Recommendation 2. MDA IR auditors informed us that the MDA Director of Acquisition concurred with Recommendation 2. However, the MDA Director of Acquisition was not able to take corrective actions until after the audit report was issued on September 19, 2016. MDA IR auditors agreed that they should have addressed these management comments in the audit report. MDA IR is also conducting a followup audit to determine whether corrective action was taken for Recommendation 2.

## Recommendations, Management Comments, Our Response

### **Recommendation 3**

**We recommend that the Director, Missile Defense Agency Internal Review, emphasize to audit staff that they need to include an evaluation of management comments for all recommendations in the summary of management comments.**

#### *MDA Comments*

The MDA Director agreed with the recommendation, stating that on March 13, 2018, the MDA IR Director sent an e-mail directing MDA IR staff to include an evaluation of management comments for all recommendations contained in audit reports.

#### *Our Response*

Comments from the MDA Director addressed all specifics of the recommendation. We reviewed the MDA IR Director's e-mail that directed the IR staff to include an evaluation of management comments for all recommendations in audit reports. Therefore, the recommendation is closed, and no further comments are required.

If you have any questions or would like to meet to discuss the report, please contact Carolyn R. Hantz at (703) 604-8877 or at [Carolyn.Hantz@dodig.mil](mailto:Carolyn.Hantz@dodig.mil). We appreciate the cooperation and assistance received during the quality control review.



Randolph R. Stone  
Deputy Inspector General  
Policy and Oversight

## Enclosure 2

### Missile Defense Agency Internal Review Director's Comments



IR

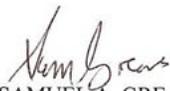
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5700 18<sup>TH</sup> STREET  
FORT BELVOIR, VIRGINIA 22060-5573

APR 03 2018

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL, POLICY AND OVERSIGHT

SUBJECT: Missile Defense Agency Response to External Peer Review of the Missile Defense Agency Internal Review Organization, Project No. D2018-DAPOIA-0024.000, March 7, 2018

Thank you for the opportunity to review the draft report "External Peer Review of the Missile Defense Agency Internal Review Organization (Project No. D2018-DAPOIA-0024.000)." Attached are our comments and Security Marking Review. The point of contact for this effort is [REDACTED]

  
SAMUEL A. GREAVES 4/3/18  
Lieutenant General, USAF  
Director

Attachments:  
As stated

**Response to Department of Defense Inspector General (DoD IG)  
D2018-DAPOIA-0024.000 - External Peer Review of the Missile Defense  
Agency (MDA) Internal Review (IR) Organization  
DRAFT REPORT - March 7, 2018**

**DoD IG FINDINGS**

**Finding 1:** Auditors Did Not Document All Required Independence Assessments

***MDA Response:*** Agree.

**Finding 2:** Auditors Did Not Document the Competence of a Project Team Member

***MDA Response:*** Request the sentence, “For MDA IR Project No. A-15-07, MDA detailed an internal procurement analyst to IR...” be reworded. The procurement analyst was not detailed to Internal Review (IR) specifically to work on project A-15-07. Therefore, suggest the sentence be restated as, “An internal procurement analyst on a rotational developmental assignment to MDA IR from June 8, 2015 to October 2, 2015 was assigned to work on project A-15-07.”

Request the report be changed to give MDA IR credit for the recommendation in our Fiscal Year (FY) 2017 Quality Assurance Review (QAR) Report. A recommendation was made to reiterate to the staff the importance of following Generally Accepted Government Auditing Standards and IR policy when conducting audits. This includes ensuring extenuating circumstances of an audit are documented in the project file. The recommendation was discussed with the Team Lead and the A-15-07 project file was updated.

**Finding 3:** Auditors Did Not Perform Timely Supervisory Reviews

***MDA Response:*** Agree.

**Finding 4:** Auditors Did Not Include an Evaluation of Management Comments for All Recommendations

***MDA Response:*** Agree.

**DoD IG RECOMMENDATIONS**

**Recommendation 1:** Recommend that the Director, MDA IR, clarify guidance to ensure that auditors include all required independence statements in the project files to comply with MDA IR-AU-TM-001.

***MDA Response: Concur.*** Although the auditors did not initially include the MDA IR Director’s Statement of Independence (SOI) in the A-16-04 and A-16-08 project files, the SOI was completed timely and available on IR’s shared drive. The A-16-04 and A-16-08 projects were updated to include the SOI. On March 13, 2018, the MDA IR Director notified the IR staff

to comply with this recommendation and include all required independence statements in the project files. Request this recommendation be closed.

**Recommendation 2:** Recommend that the Director, MDA IR, require auditors to document the competence and qualifications of all project team members assigned to audits.

***MDA Response: Concur.*** The MDA IR FY17 QAR Report identified this issue. The information about the internal procurement analyst on rotational assignment was added to the A-15-07 project file. On March 13, 2018, the MDA IR Director notified the IR staff to comply with this recommendation and document the competence and qualifications of all team members in project files. Request this recommendation be closed.

**Recommendation 3:** Recommend that the Director, MDA IR, emphasize to audit staff that they need to include an evaluation of management comments for all recommendations in the summary of management comments.

***MDA Response: Concur.*** On March 13, 2018, the MDA IR Director notified the IR staff to comply with this recommendation and include an evaluation of management comments for all recommendations in audit reports. Request this recommendation be closed.

# **Whistleblower Protection**

## **U.S. DEPARTMENT OF DEFENSE**

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